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May 17, 2002

EX PARTE – Via Electronic Filing

Ms. Marlene Dortch
Secretary
The Portals
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: CC Docket Nos. 01-338, 96-98, and 98-147

Dear Ms. Dortch:

On Thursday, May 16, 2002, Robert A. Curtis, Peggy Rubino and Tom Koutsky of Z-Tel Communications, Inc., met with Rob Tanner, Jeremy Miller, Jonathan Reel, Christine Newcomb, Gail Cohen, Alan Thomas, Dennis Johnson, Henry Thaggert, Ian Dillner, and Dan Shiman of the Competition Policy Division, Wireline Competition Bureau, and Ellen Burton of the Industry Analysis and Technology Division, Wireline Competition Bureau, to discuss Z-Tel's Comments in the following matters under consideration in CC Docket Nos. 01-338, 96-98 and 98-147. Z-Tel's arguments are set forth fully in those comments. In particular, the Z-Tel representatives discussed:

- Z-Tel's legal position that unbundled local switching is required by the 1996 Act;
- The definition of the residential and small business "mass-market", which consists of over 139 million analog telephone lines in the territories of the BOCs and GTE exchanges;
- The importance of being able to serve this mass market ubiquitously so that Z-Tel can provide services to support MCI's innovative Neighborhood local entry plan;
- The customer service and other demand-side characteristics that Z-Tel needs to serve the "mass-market" and how only at this time the availability of UNE switching and the unbundled network element platform can support the quantity of customer conversions and change orders that serving this 139 million line mass market requires;

- The crucial role state commissions have with regard to fact-finding and making competitive policy determinations, evidenced by the New York and Texas commission decisions to expand the availability of unbundled local switching and the UNE platform beyond the FCC's current national minimum rule.

The attached materials were distributed to the attendees.

In accordance with FCC rules, a copy of this letter is being filed electronically in each of the above-captioned dockets.

Sincerely,

Thomas M. Koutsky

/krs
Attachments

Chicago Tribune
SECTION 3 BUSINESS TUESDAY AUGUST 21, 2001

Photo for the Tribune by Warren Skalski

Z-Tel Technologies has enlisted Bears legend Mike Ditka in ads across the Chicago area touting its local phone service.

Rivals revving up home phone fight

Ameritech loses local monopoly

By Jon Van
Tribune staff reporter

After years of delays and regulatory hurdles, competition for residential phone service finally has arrived in the Chicago region.

Billboards and radio spots feature former Bears coach Mike Ditka urging consumers to "Bench Ameritech," and newspaper ads tout the end of the local phone monopoly for consumers.

Congress passed a national law intended to spawn local phone competition more than five years ago, but the real deal arrived in Chicago mostly because of some arcane requirements imposed by Illinois regulators as part of approving the takeover of Ameritech by SBC Communications Inc.

Ameritech's rivals can target customers throughout the region using Ameritech's lines, switches and other network pieces, while paying Ameritech only about half its retail price to use these network elements.

Taking on Ameritech

Several companies are competing with Ameritech to provide local phone service to Chicago-area residents.

- **AT&T Broadband** offers service over its cable TV systems in communities where those systems have been upgraded.
- **MCI WorldCom** uses Ameritech's network to sell local service throughout the Chicago region.
- **McLeod USA Inc.** offers local service in several suburbs and part of Chicago using its own network and portions of Ameritech's.
- **OnePoint Communications Corp.,** which recently changed its name to Verizon Avenue, serves high-rise apartment buildings with its own facilities, offering local phone service, video and high-speed data lines.
- **RCN Corp.,** formerly 21st Century, offers local phone, cable TV and Internet services using its own network and some Ameritech facilities. It primarily serves communities on Chicago's North Side near Lake Michigan.
- **TDS Telecom,** which competes with Ameritech in Wisconsin, offers local phone service in Lake County using its own facilities and parts of Ameritech's network.
- **Z-Tel Technologies Inc.** uses unbundled network elements from Ameritech to serve residential customers throughout the region.

Chicago Tribune

PHONES: Ameritech seeks OK for long-distance

This arrangement is referred to in the phone business as an "unbundled network element platform" or UNE-P (pronounced you-knee-pea). Two competitors have embraced it most enthusiastically here: MCI WorldCom and Z-Tel Technologies Inc.

MCI started offering local service using Ameritech's UNE-P on a limited basis in December and began to market it aggressively in the spring, when it also launched similar service in Michigan. MCI also offers residential local service in New York, Texas, Pennsylvania and Georgia.

The company says it has 1 million local customers across those six states but doesn't break out totals. But Illinois is a strong market for MCI, said Kathleen Rumfola, the firm's marketing director.

"Of the six states, our early response rate in Illinois has been greater than any other state," she said.

MCI offers flat-rate local calling bundled with long distance in a variety of packages that start at $20 a month.

Z-Tel also is pleased with customer acceptance here, said Ron Walters, regional vice president of industry policy. Nationwide, Z-Tel claims to have more than 300,000 local phone customers, but the company also doesn't break out totals by state.

"Our product is being accepted beyond expectations," Walters said. Z-Tel's prices for flat-rate local service begin at $25 a month.

Efforts by MCI and Z-Tel to win residential customers are the first to target the entire Chicago region since 1998, when MCI and AT&T both offered local service throughout the Chicago market.

In their first foray into local competition, both long-distance carriers used a resale package from Ameritech to reach residential customers. AT&T and MCI found that with only a 20 percent discount off Ameritech's retail rates, they were losing money, and both pulled back from the local business.

AT&T eventually bought into cable television systems and offers local phone service here in communities where it has upgraded its cable operation to also carry phone traffic.

More competition

Several other competitors, including TDS Telecom, McLeod USA Inc., RCN Corp. and Verizon Avenue, offer residential phone service over their own facilities to certain communities in the region, but none offers the areawide service that MCI and Z-Tel have started.

Although the 1996 federal law envisioned widespread local phone competition for consumers, it took special concessions from SBC to get the ball rolling here, said Richard Mathias, chairman of the Illinois Commerce Commission.

"This is truly an example of how the devil is in the details," he said. "These are detailed transactions between an incumbent carrier and its rivals. If the incumbent wants not to do something, it is relatively easy to insist upon strictly interpreting details in a favorable way."

Both MCI and Z-Tel say they've had problems getting network elements from Ameritech in a full and smooth manner.

"We've had operational issues with Ameritech and continue to work to correct them," said MCI's Rumfola. "Things have gotten better as time passes."

Walters said that Ameritech has failed to supply Z-Tel with local toll service in Illinois despite being required to do so by the Illinois Commerce Commission and Illinois law and has been uncooperative in other ways.

"Of all the SBC companies we deal with, Ameritech Illinois has been the worst," Walters said.

Michael King, an Ameritech spokesman, said that his firm has filed the necessary paperwork and will be providing local toll service to Z-Tel by the end of next month. He noted that the number of rivals using Ameritech's network is growing rapidly, and the giant is still developing systems to deal with them.

Mounting penalties

In the past year, Ameritech has paid a total of $26.4 million in penalties for failing to meet its promise to provide rivals with the same level of network service it provides to retail customers. Monthly penalties have been rising because the number of competitors using Ameritech's network has risen, King said.

"We went from a few competitors last year to more than 40 now," he said.

Last October Ameritech handled only three UNE-P orders from rivals, King said. By May that had climbed to 86,000, and in June it was 132,000, King said.

Ameritech has good reason to encourage competitors in the residential market, beyond SBC's merger-related promises. The carrier cannot offer long-distance service here until it persuades regulators that Illinois customers have real alternatives for local phone service.

John Hudzik, of Ameritech's long-distance compliance group, said that his firm would file to get long-distance approval by the end of this year. He said that Ameritech is working hard on its biggest hurdle, which is to establish a computerized system linked to rivals that will enable customers to change local phone companies as effortlessly as they can change long-distance carriers.

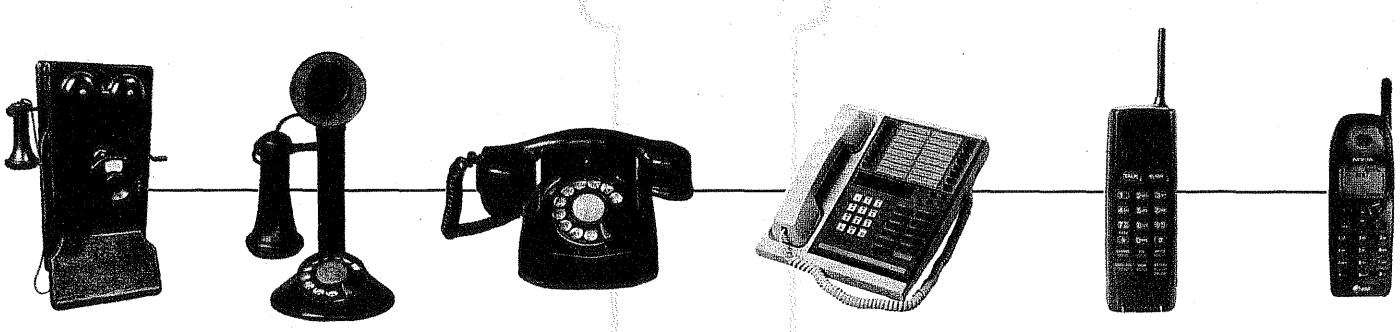
"It's a long process that will run late into the first quarter of next year," Hudzik said.

Chicago Tribune

The advent of

Intelligent Dial Tone

TEL™

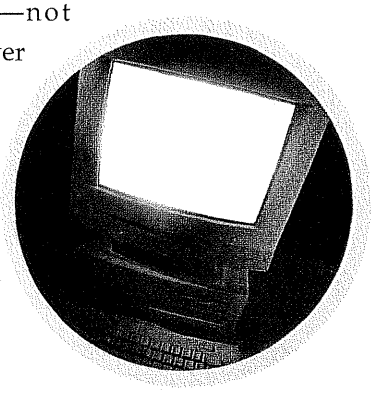


The telephone network is the world's most essential and commonly used communications service. It's surprising, then, that phone innovation essentially came to a standstill over a century ago.

"Under the hood" technological advances such as automated switching, packet networks, and fiber optics have since improved the speed and capacity of the phone network. Furthermore, what were once bulky wooden boxes can now fit comfortably into the hip pocket. But these innovations have done little to change the way we actually use the phone: pick up the handset, dial a number, and get either a ring or a busy signal.

The Internet, on the other hand, rapidly evolved and ultimately revolutionized computer communications during the 1990's. Using low-cost networks and relatively rich user interfaces, net companies began to provide users with highly personalized services and innovative communications capabilities, such as e-mail and instant messaging.

The gap between phone networks and Internet technologies fueled Z-Tel's mission: to bring the capabilities of the Internet to every phone. An intriguing idea to be sure, but one that in the past has faced seemingly insurmountable obstacles including: (1) Phone users cannot engage in complex dialogs using only twelve mostly numeric keys. (2) Internet content in the HTML text format is primarily limited to graphical representations—not very useful over the phone.

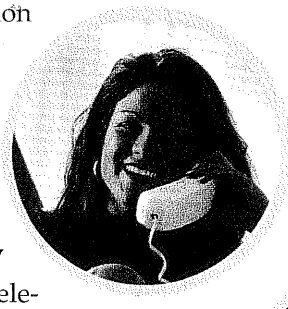


Z-Tel™ is taking advantage of recent developments to break through these longstanding barriers and unite the two technologies. Using advances in carrier-grade, speaker independent, natural-language speech recognition, we are transcending the limitations of the phone keypad to let users interact in a more natural way—through the power of their own voice. New XML standards-based languages, most notably VoiceXML, make possible the delivery of Internet content to any phone powered by Z-Line™.

The elements required to make Intelligent Dial Tone a reality

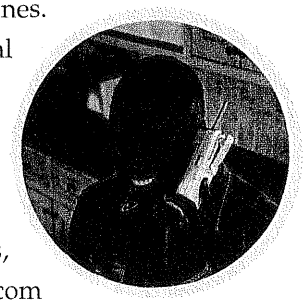
1 **To tightly integrate these capabilities to the home phone, the provider must be a Local Exchange Carrier (LEC) and must "own" the customer.** This won't work in a resale environment—the provider must have access to the network elements to make the integration seamless. Z-Tel™ has an enormous advantage with its network architecture.

2 **The provider must have the technology and architecture to enable multi-modal access to services and the ability to browse the voice Web.** The Z-Tel Z-Line™ platform was engineered from the ground up to be device- and delivery-channel independent. In fact, it allows multiple, dissimilar 'devices to interact within any given session. Speech recognition both enhances and compliments the existing Z-Line platform.

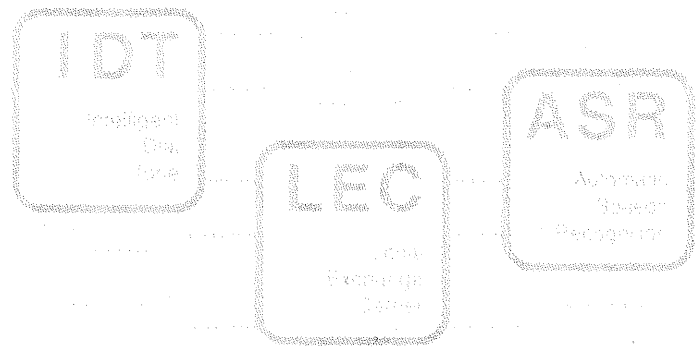


3 **The provider must be able to deploy Automatic Speech Recognition (ASR) technology and applications.** While many telecom companies have dabbled in speech recognition, Z-Tel has proven its delivery capability by deploying a speech-enabled version of Z-Line enhanced by the Nuance Voyager™ voice browser framework.

4 **The provider must be able to deliver these capabilities with reasonable economics.** Companies that are exploring speech recognition technologies (including the much hyped new breed of voice portals) are finding that creating and maintaining a telecom infrastructure is neither inexpensive nor easy, and inbound 800 access is very expensive. As a carrier, Z-Tel has huge advantages in this area. We already have a telephony infrastructure and can negotiate carrier rates on our lines. Since we are the local carrier and our platform is in the network, we can avoid originating and terminating access charges, which drives our telecom costs down to a fraction of the cost of traditional voice circuits.



5 **The provider needs to have the vision to see the enormous potential of the voice Web, and they must be able to deliver on this vision with Internet speed.** With a speech-enabled Z-Line and other cutting-edge technologies currently in development, Z-Tel has the capability to deliver on its vision much faster than more established competitors. And we're certainly not resting on our laurels. As we build out our full production implementation we are already working to couple speech recognition with the Z-Tel Next Generation Network™ strategy. With this and other advances, Z-Tel will continue to prove itself as an innovative force in delivering speech applications to consumers.



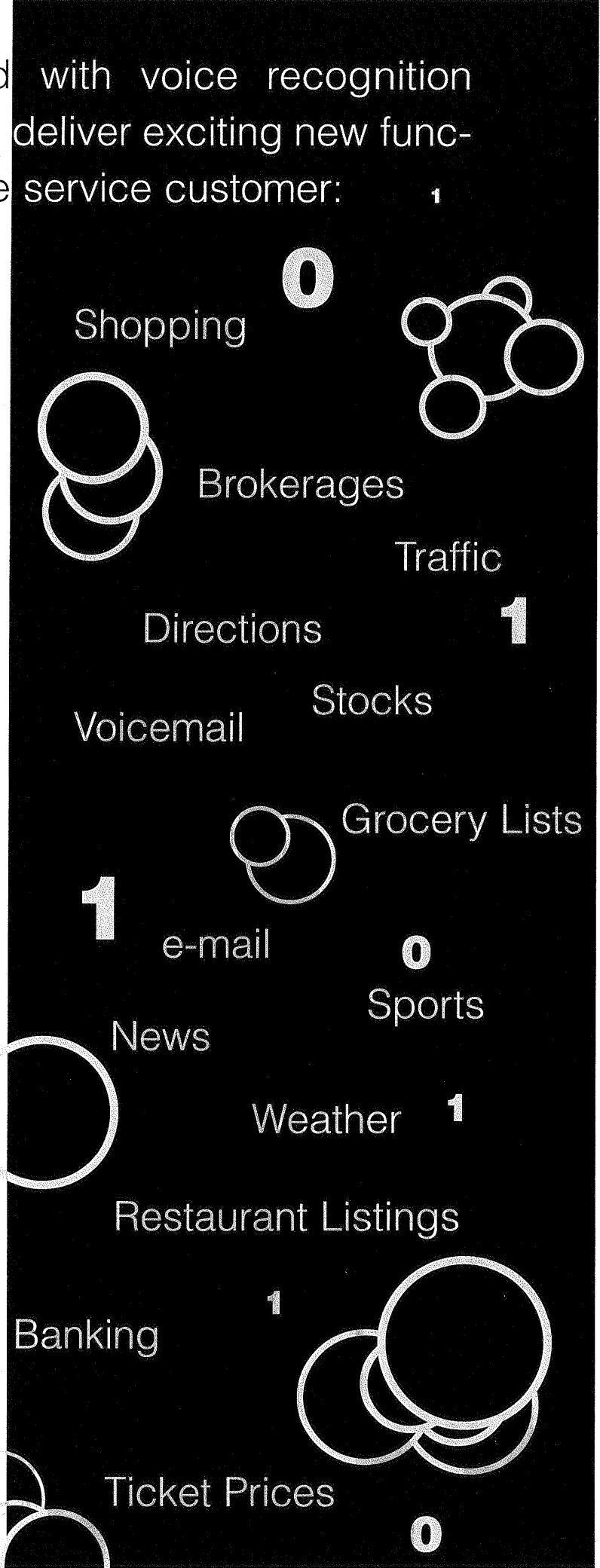
Z-Tel's technology combined with voice recognition capabilities will empower us to deliver exciting new functionality to today's home phone service customer:

Z-Tel™ is in the process of uniting a robust voice interface, rich with content and services, with the omnipresent home phone, thus bringing the power of the Internet to consumers without requiring them to buy any new devices or learn any new technologies. We call this "Intelligent Dial Tone."

When Intelligent Dial Tone is in place, subscribers of Z-Tel's local phone service Z-Line Home Edition™ will have immediate access to an entire "voice Web" of information and services every time they pick up their phones. They will be able to check and respond to their Voicemail and e-mail messages; send messages or call people in their online Address Book; browse Z-Tel partner voice sites for news, stocks, sports, traffic, weather, directions, and restaurant listings; and access personalized services like banking, brokerages, and shopping—all from their home phones—quickly and easily.

We believe Z-Tel's technology, combined with voice recognition capabilities, will empower us to deliver exciting new functionality to today's home phone service customer: managing grocery lists on the phone while driving home...browsing ticket prices and purchasing a flight anytime, day or night, without turning on a PC...placing a call simply by saying the name of the person you want to call.

Z-Line™ will enable anyone to pick up his or her phone and hear, "What would you like to do?"



Z-Tel Technologies, Inc.™ provides consumers bundled local and long distance telephone services, combined with enhanced, Internet-based communications features that enable them to manage all of their voice communications needs. Z-Tel™ currently sells this bundle as Z-Line Home Edition™ in a number of states including New York, Texas, Massachusetts, Pennsylvania, Georgia, Oregon, Maryland, California, and Illinois and had 256,000 active customers at the end of the third quarter of 2000. For more information about this innovative new service or about Z-Tel, please visit the Company's Web site at www.ztel.com.

Why have a phone line when you can have a Z-Line?™